

Australia: RBA meeting preview

We forecast a hike by Australia's central bank in 2Q18. This is considerably more aggressive than the market, which is only pricing in a 50% chance of a rate rise by end 2018.



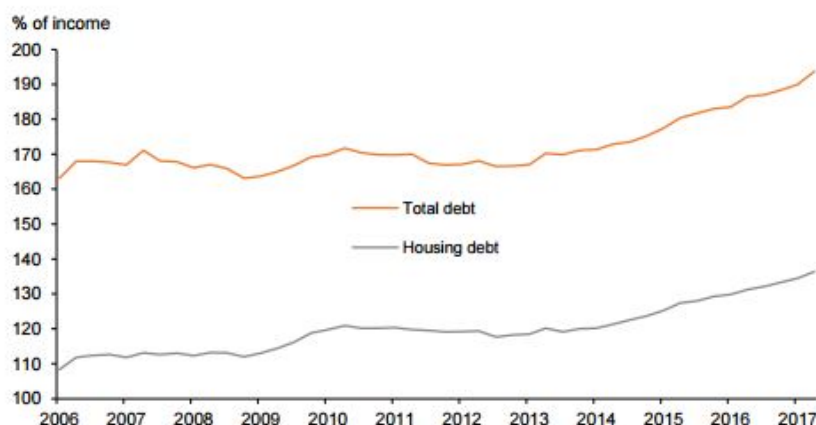
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The RBA meets on Tuesday to decide what to do with monetary policy, and we believe this could be an exceptionally short meeting. None of the economists surveyed by Bloomberg is expecting any change in policy. This is perhaps not surprising as not only does the inflation data continue to disappoint, but it has been joined by some fairly disappointing activity data in the form of retail sales.

The issue for the RBA, though, with household debt-to-income ratios closing in on the 200% mark, is that whenever it does decide to hike, rates are likely to bite quite hard, which is obviously a deterrent to hike now. But the longer they wait, the higher the debt ratios and associated debt service costs will be (Macroprudential measures are having only a modest effect), so the downside risks to activity will be higher.

This argues for a more activist approach. You could think of this as the “stitch-in-time-saves-nine” knitting analogy to central banking. We are forecasting a hike by the RBA in 2Q18. This is considerably more aggressive than the market, which only prices in a 50% chance of a hike by end

2018.



Source: ING, Bloomberg

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